A Pricing System for The Social Fund for Development's Non-Financial Services Central Sector

Final Report

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Pricing assignment perspective

The scope of work for this assignment to develop NFSCS's costing and pricing system to an international standard was both sensible and timely. The push to begin pricing services reflects the necessary evolution of NFSCS toward a more commercially oriented operation, one that is increasingly responsive to the needs of its beneficiary MSMEs.

Certainly, shifting from the provision of free services to a system wherein they are priced is never an easy transformation. However, it is encouraging to note that every NFS department is confident that such a transition can and should take place. Indeed there are existing service offerings in every NFS department that can be priced and sold with some minor upgrades or services offered in tandem.

Department	Services identified as high priority to begin selling in 2016
Industrial	Barcoding & QRC discount (with letter provided by NFSCS)
	Business information provision
Marketing	Government tender support to access SME set-aside procurements
	Access to hypermarkets & public sector retail chains
Entrepreneurship	Course – Generate your business
	Course – Start your business
	Course – Empowerment of women
	Course – We grow
OSS	Issuance of national ID card at discounted rate
Agribusiness	Feasibility studies for technical guidance and loan support
	Business advisory services for marketing, supplier sourcing
	Capacity building for small agribusiness associations
Exhibitions	B2B & B2C marketing exhibitions prices substantially adjusted upward for different sized clients
Franchising	Matchmaking / handholding between franchisors (client) & franchisees
E-Marketing	New service – B2B transaction fees for sales through portal
Incubators	New service – Management and support fee paid by third party incubator management NGOs (probably 2017)

In addition to the above there were seven other potential new services believed to be viable for near term launches. In short, the departments listed above all have great confidence in their ability to sell in-demand services in the near future to existing and new clients. Consultant agrees these are realistic targets for revenue generation.

The pursuit of an increased level of client responsiveness, while simultaneously beginning to charge for services, is not contradictory because an increase in service value-added must also be part of the equation. NFS offers its clients many useful services which will only further contribute to Egypt's economic recovery as each is strengthened with more value for the MSMEs using them.

There are several prerequisites to establish a new pricing system including having a clear understanding of what the market will bear, in terms of what customers will pay for services received. Just as important is being able to determine which services are most in demand and which ones are perceived as valuable. These factors will need to be routinely determined by SFD organizationally with a simple but systematic customer monitoring system. Until such a system is fully adopted, these sorts of data may be accumulated from focus groups, informal surveys and by simply tapping the knowledge of SFD NFSCS employees. All three of these methods were used to propose a pricing system under this assignment and are described more in the next section.

Methodologies employed to determine the pricing system

Consultant began this assignment with a comprehensive desk review to reveal the most successful methods of achieving sustainability – used by some of the world's non-financial services providers who are not fully funded by governmental agencies or commercial entities. This resulted in 27 downloaded reports and studies plus content reviews of several other websites. The most useful of these sources were reports compiled for USAID, the World Bank, the ILO and [by] the Aspen Institute in the US. Combined, they offered a wealth of information about costing and pricing of services, selling services to price sensitive markets, collecting fees and of course statistics – including typical revenue sources and their relative importance to sustainability.

Once in Egypt, a number of useful materials and past reports were provided to consultant by NFSCS staff for review by consultant. Included were costing and pricing advisory efforts that were previously undertaken. There were also a number of helpful price lists of services sold through various outsourced BDS providers via ongoing donor efforts, such as the Women in Business program in partnership with EBRD. The Organic Clusters Group, Industrial Department and NFSCS Technical Unit, in particular, were especially helpful in providing resources and arranging key stakeholder meetings. This assistance is gratefully acknowledged and made the time in-country more efficient and effective.

Consultant spent just under one full month in Egypt in performance of this assignment. The most pressing information needs centered on learning what services clients most want and demand, which client profiles (number of employees, etc.) require which types of services, what pricing levels are possible for each of them and how other BDS providers in Egypt operate in the current economic conditions.

The methodologies to address the above information needs included face to face interviews with SMEs at a furniture and handmade carpets exhibition, wherein six entrepreneurs were met and asked a series of pre-arranged questions. At the same exhibition, BDS providers (furniture and carpet industry associations, cooperatives and chambers plus advisory service professionals) were administered a different set of questions about the nature and cost of their services, as well as the impediments encountered in delivering them.

There were also one-on-one meetings with the Egyptian Banking Institute to learn about their SME banking training initiatives and the EBRD to better understand their success in selling advisory services to price sensitive SME clients.

For a further in-depth understanding of Egyptian MSME's willingness to pay for new or existing services, a focus group was held with a group of women-owned MSMEs participating in the Industrial Department's EBRD Women in Business program. The women clearly demonstrated an acceptance of the need to pay for quality services that could help them grow their businesses. This was inspiring and encouraging, and it reinforced the notion that valuable services can be sold in Egypt, even in difficult economic times.

What became absolutely clear from all of the stakeholder discussions is pricing for services must be market-based. Each service and its target clients have different payment thresholds. The best source of information about these thresholds – and the clients' abilities to pay – may be found within SFD NFSCS department staff. With a modest amount of prompting, it was not difficult to tap this ingrained knowledge and establish starting prices for services, the basis for which was validated by the information obtained during the other stakeholder meetings.

Benchmarking

The desk review undertaken clearly demonstrated BDS organizations like SFD NFSCS do not support themselves with fees for services alone. In fact, a typical large BDS organization only receives an average of 15% of its annual funding through fees for services. And

even to achieve this number requires creativity and a high degree of professionalism.

Most successful BDS (nonfinancial services) organizations employ a variety of means to help generate fees from price sensitive clients. One thing they usually do well is cross-sell a menu of integrated services. For SFD this would mean bringing Lending and NFSCS much closer together to offer clients a seamless package of services wherein loans are routinely followed by consulting, advisory and training services. For this to happen, the entire SFD organization needs to accept that it is one group dedicated to the same set of goals. Lending must cross-sell NFS services Just as NFS must cross-sell Lending services.

Methods of selling priced services

Cross-selling between Lending and NFSCS would allow a crucial selling tool to be adopted – that of embedded services. Most NGOs and quasi-governmental organizations that offer both loans and non-financial services to MSMEs take full advantage of embedded services and payments. The most common form encourages MSMEs to buy BDS (non-financial) services as part of their loan package. This improves repayment rates while strengthening client operations more than either lending or advisory services can accomplish independently of each other. The beauty of this arrangement really becomes apparent when MSMEs are not bothered by payment for services which are simply added to their monthly loan repayments.

The advantages of cross-selling also apply intra-departmentally for NFSCS and there have been some nascent attempts already made by individual departments to do this. For instance, Entrepreneurship is able to provide training services for just about any other department’s clients, just as Marketing is able to as well. The same applies to the Industrial department since they may conduct company diagnostics for clients in a variety of industry sectors. When individual departments routinely sell their clients the services of other departments, the resulting synergies allow client satisfaction and fee generation to happen much more easily.

The detailed set of recommendations and tools provided with this report, in deliverables 4 and 5, establish both the strategic framework and tactical implementation steps to setup and sustain a pricing system for services offered by NFSCS.

The basis for the system is centered on the fact that market based pricing needs to take precedence over cost based pricing. However, costs do need to be known and factored into pricing decisions. As such, the cost and pricing tools, particularly the pricing spreadsheet,

require the user to determine a pricing level with the end buyer in mind then calculate the costs. Doing this several times, one can see the impact of different prices on cost recovery then set a final price.

One advantage of the recommended system is its reliance on variable pricing, in other words, pricing at different levels according to the ability of different client types to pay. The assumption is micro companies can generally pay less for a service than small companies, which can generally pay less than medium-sized companies. This allows the user of the pricing system the flexibility to sell services to all kinds of clients while being responsive to their financial situations.

The overall goals for NFSCS fee generation must be realistic. There is little chance to generate substantial sums to cover NFSCS/SFD organizational costs – as has been demonstrated by other international examples. The best and most realistic option is to strive for is a moderate level of cost recovery against expenditures that result from facilitated or direct delivery of services to MSME clients. In most cases it can be expected to recover half or more than half of the direct costs to provide a service, and in some cases, some indirect cost recovery will be possible as well.

The need for continually upgraded fundraising and public relations

As it is clear that fees for services provided will never (by themselves) fully sustain NFSCS/SFD, the other two primary means of obtaining funding also need upgrading to ensure SFD's future viability.

Donors do not operate without having their operating costs covered by their funding sources. Nonetheless, they often expect their beneficiaries, e.g., SFD, to operate without funding for operating costs. There is a disconnect in this regard that needs to be addressed with each new donor program – from 2016 onward – presented to SFD for consideration. While it is recognized donor negotiations for increased cost coverage will not be easy, the issue should now always be raised because it is difficult to envision SFD's long-term survival without more flexible funding from donors.

As importantly, grants from corporate social responsibility budgets should be more aggressively and systematically sought. The Entrepreneurship department, for one, has proven it is possible to seek and obtain substantial amounts from CSR budgets. Large companies often have CSR funds they have difficulty spending, because organizations undertaking socially responsible work do not always effectively publicize the good work they are doing. This is something SFD is advised to review. Messages about the good work being done need to be carefully crafted to inspire and intrigue CSR

managers. It means creating a stronger brand image and backing it up with well-articulated successes, human interest stories and messaging that demonstrate impact to the country. It is suggested to build further capacity in the International department while considering the services of a different PR firm to better communicate SFD's crucial socio-economic efforts together with its funding needs.

While on the topic of messaging, it is clear the public at large, and MSMEs in particular, need to understand the reasoning behind NFSCS's sudden push to sell services, rather than offering them for free. Ideally, this should involve media messaging to explain the upgrading of services SFD is undertaking and the fact it is no longer possible to solely provide free services. NFS staff too will be inundated with questions from clients and they need to understand how to respond. The recommendations in deliverable 5 offer some tactics for coping with client inquiries to provide appropriate responses. These in combination with generally offering some upgrade to each newly priced service, e.g., adding value with CD/DVD-based tools, one hour of follow-up advisory time (by NFSCS staff members), etc., will greatly ease the transition to priced services

Suggestions for policy changes in support of the new pricing system

There is general confusion about SFD's indirect cost allocation system. The way indirect (SFD common) costs are allocated should be made more transparent for all sectors; this is especially true now that technical staff are expected to be involved in pricing decisions. As the situation stands now, indirect costs appear to be allocated to NFSCS at levels that are out of balance with other sectors. This not only provides management with inaccurate information for decision making, but it also affects morale in the NFSCS group. The NFSCS Director and Finance Director should agree on a fairer allocation scheme – supported by the Managing Director.

NFS needs to become more commercially oriented, which means fewer, better services and keeping up with market needs. NFS should be viewed by MSME clients as responsive, current with market trends and customer oriented. This requires continued capacity building and a customer service orientation. Each technical sector's annual capacity building plan – to improve staff technical knowledge and skills – must be implemented every year to more effective facilitate service delivery. Every technical sector staff should undertake at least one training course every year directly pertaining to a service being offered. Customer service (soft skills) should continually be reinforced as well. Another means to develop capacity in staff is to further empower consultants in their transfer of knowledge and skills. NFS already does this and includes staff capacity building in terms of

reference. Nonetheless, the process could be made a little more systematic by having any visiting consultants continually share methodologies with at least two relevant staff members. Requiring these staff members to then present what they have learned to their colleagues, at the end of the visiting consultant's term, would help ensure institutional absorption.

As noted, adding value to newly priced services is crucial to overcome objections to paying for what was formerly free. Many MSMEs have expressed the need for more follow-up after a service is provided and help coordinating with the outsourced BDS providers, which is what international experience has shown creates impact. As a facilitator, NFSCS management is advised to adopt a system in which every client has a single key contact person within NFS (a *Relationship Manager* role). This person will ensure follow-up occurs to ensure continuity between all of the BDS providers that assist them. This role takes on much greater importance as NFS offers more integrated services, e.g., when Marketing, Entrepreneurship, Industrial departments, OSS and others are all providing services to the same client.

NFSCS cannot be all things to all people. A conscious effort to eliminate programs that are not in-demand should start immediately. Greater specialization and product standardization will, over time, lower delivery costs and improve effectiveness. Each NFSCS department should focus on 2-4 core services, each able to be sold**.** Deliverable 5 reinforces this with specific service and pricing recommendations.

Programs that address small numbers of beneficiaries are not generally viable for NFS; the cost of delivery is too large and the benefits reach too few MSMEs. SFD is a large organization with 31 regional offices. Undertaking programs that target too few beneficiaries is contradictory to the broader economic development mandate and damaging to SFD's image. It is therefore important for SFD / NFSCS to do a simple cost per beneficiary analysis when contemplating a new program. Most simply: total new program estimated direct and indirect cost divided by the number of likely beneficiaries during a year.

Obtaining customer and market feedback is not optional if long-term sustainability of a pricing system is to be expected; it is required. The basic systems are in place (further guidelines and templates are provided with deliverable 2) to obtain client feedback about needs and wants for services. This should be done at least annually. Client data is important when pricing existing or new services and needs to be more vigorously collected, analyzed and provided to the technical departments, especially NFSCS. The new database under

development with Microsoft will offer a great opportunity to track client feedback more effectively – but a conscious decision to use it needs to be made. Using the accumulated client data will assist SFD to periodically launch new, demand-driven services to improve its image and act more like a commercially focused organization.

For services to be improved and increasingly in-demand, it will be important to establish a more systematic relationship with outsourced BDS providers. BDS provider performance should be tracked using a simple database and rating system then decisions made to continue with or drop individual providers. The idea is not to have an adversarial relationship, on the contrary, every effort should be made to increase communication with outsourced BDS and improve relations, as they are some of the best sources of client feedback. However, by tracking their performance ratings, from simple client satisfaction surveys at the end of every assignment, it will be clear that some are not meeting expectations and should be discontinued. BDS providers should routinely be asked to develop new ideas for services/products and upgrade – add value to – existing services. And they should be given a stronger role and responsibility to help find clients; this will be explicitly outlined in MOUs that NFSCS signs with them. It may even make sense to incentivize outsourced BDS providers to find clients by adjusting the rate they are paid according to the number of clients served in a specific time period, e.g., six months. As importantly, contracted BDS providers need to recognize the business development role NFSCS is having in improving their sales. They, therefore, should be willing to fit their daily rates within NFSCS standard rates or at least be asked to discount their services on behalf of NFSCS.

Conventional wisdom suggests organizations such as NFSCS must always play a facilitator role. In most instances this is probably true. However, there is also something to be said for the efficiency gained by using qualified staff to provide services for which they are capable. There are a number of qualified people within the NFSCS who, time permitting, are absolutely able to offer valuable coaching and training services at the client level – for a price. As long as the staff have available time, and can maintain a superior skill level, this is an option not to be ignored. It will raise the profile of NFS staff, make them more credible in the eyes of clients, improve the client feedback loop and allow a more hands-on ability to continually upgrade services. Meanwhile, the direct costs of services can, in some instances, be greatly reduced. This is not to say a tectonic shift to direct provision should happen; merely that in some cases direct provision may be practical for clients and beneficial for NFSCS.

NFS has traditionally not been well-resourced compared to Lending, especially in the regional offices where NFS staff are often taking on

tasks that have nothing to do with their NFS position descriptions. Moreover, it is often stated NFS regional employees who are competent are simply taken by regional Directors for use in activities they deem more important (than non-financial services). Management should decree that these practices stop immediately. NFS regional employees must be used only for non-financial services related activities, otherwise SFD NFS will never live up to its potential or generate the kinds of fees expected of them.

Ongoing strategies after the first year of pricing system implementation

In order to continue on a track of increased fee generation and improved sustainability, SFD and NFSCS must adopt a more strategic vision for the sale of non-financial services. It will become increasingly important to differentiate SFD/NFSCS from other service providers, especially as the banks move ever further into SFD's traditional areas of operation.

It will be important to Monitor SFD's market position versus banks, the IMC, government sponsored MSME training programs and others while understanding the market position of each of them. This will involve conducting simple, rapid client research at least annually to understand in greater depth what services target clients need, discuss new service ideas with them, and determine what other BDS providers they rely on and why. The client interaction can also be used to educate them about what is behind the new requirement for SFD NFSCS to offer fee-based services. The main message being fees are needed in order to continue serving them with increasingly high quality and more relevant products.

The results of the research will then be used to adjust target clients (perhaps further move away from medium-sized toward very small and micro). It can also help in adjusting the types of services offered versus those of other competing BDS providers, if for example, the market is saturated with a particular service.

Once the research data is obtained it will be possible to revise tactical marketing activities based on an understanding of the market position to: adjust ongoing services pricing to MSMEs, make promotional adjustments to cost effectively reach and educate perhaps different target MSMEs, use promotion and publicity to project a higher image in the market, and gradually increase pricing as MSMEs begin to accept fees, hopefully while SFD's overall image continues to improve.

Of course pricing must be in alignment with the quality of services, and particularly, those which are in-demand. It will therefore be advisable to refocus the services mix in two-year time frames, based

on an ongoing clearer understanding of the target market, and determine which services will be offered. This involves narrowing the focus and specializing, where possible, to do fewer things but do them better. It will always be a sensible idea to eliminate services clearly not in-demand, as long as they are not required for continuation due to socially oriented reasons. And then capacity may be freed up to identify new, in-demand services (from the client research).

Almost certainly, a continuation of a market-based pricing approach will be advisable as will relying on variable pricing so smaller companies pay less than larger ones.

In tandem with the pursuit of a more commercially focused organization, seeking ways to always add more value to services by bundling and packaging them into integrated client offerings will only enhance the ability to expand fee generation. Example: bundle Marketing, Entrepreneurship and Industrial services together for a furniture client to:

- Do a diagnostic analysis (Industrial Dep't);
- Train them in operations and marketing for entrepreneurs (Entrepreneurship Dep't);
- Link them with a public retail chain (Marketing Dep't).

This helps differentiate SFD from other BDS providers, creates value and expands fee opportunities.

And, finally, continued capacity building cannot be stressed enough. It is suggested to build NFS capacity with at least one training annually for every technical staff person. The value of this can be greatly enhanced by training staff in the newly designed bundled service packages to more effectively facilitate and in some cases help deliver them. A side benefit will be the ability by staff members from one department to better cross-sell the services of other departments.

Other capacity building thoughts:

- Do staff capacity building in selected, more specialized service areas;
- Do staff capacity building to better understand market positioning and service differentiation – to improve decisions about offering new services;
- Do staff capacity building to create a stronger customer service culture both externally (SFD staff with clients) and internally (SFD with each other).

Cost recovery plans

Cost recovery plan templates have been created and provided to the pricing task team members. The first versions of these were completed by each team member before consultant departed the country. This needs continued follow-up and it is suggested the task team be given a leader to do this. Task team members should continue to use the cost recovery plan template provided to finalize a basic cost recovery plan for each department for presentation to management. This can be done annually but will likely need to be a living document that is updated regularly. A component of this process involves using another spreadsheet template (designed and provided) to maintain a listing of all services and their corresponding prices. This was also completed for each department (including the four NFS departments not officially under NFSCS) before leaving the country.

Implementation risks

The actions described in this report and plan are not difficult but they do require a task team to make them happen; the task team needs:

- To be sustained;
- Have a leader assigned to drive the process forward;
- Actually meet regularly until a pricing system is adopted;
- Given priority status by every NFS manager as well as those managing Agriculture, Franchising, Exhibitions and E-Commerce.

SFD tends to have difficulty implementing new ideas that require cooperation between multiple departments, thus requiring some additional support:

- This task team needs top level support – from the Managing Director;
- Until pricing system implementation is firmly underway, it is proposed the MD establishes a monthly meeting with: the NFSCS Director, the NFSCS Deputy Director, a manager from the Finance Dep't, and the Task Team including representative from Agribusiness, Franchising, Exhibitions and E-Commerce;
- The task team needs to be empowered to make pricing decisions and have them rapidly reviewed for approval or disapproval by their department managers;
- With embedded pricing (in loan repayments) being one of the most powerful tools of BDS lending and nonfinancial services institutions worldwide, it will be extremely useful to bring

SFD Lending and NFSCS sectors together to offer this payment mechanism.

Finally, sustainability objectives must be realistic and proactive:

- Few if any BDS organizations such as SFD (government mandated with minimal government support) are fully sustainable without outside assistance;
- In fact, very few NGOs, even in developed economies, sustain themselves on fees for services alone;
- Donors and corporate sponsors will continue to be critical to SFD's survival, making a professional fundraising effort as important as ever.

Listing of attachments, tools and templates supplied with this report

Deliverable – 1: Inception report

Deliverable – 2: Guidelines to assess service demand and common pricing methods

- BDS guidelines for pricing and cost recovery strategies (22 page report)
- Selected BDS guidelines reports (multiple third-party benchmarking reports)

Deliverable – 3: BDS guidelines awareness workshop (45 slide presentation)

Deliverable – 4: Customized cost and pricing tools with client feedback templates

Cost and pricing tools/templates

- NFSCS cost and pricing recovery plan (spreadsheet tool)
- NFSCS cost and pricing recovery plan (document instructions)
- BDS cost and pricing worksheet (spreadsheet tool)

Client feedback tools and templates

- Annual client focus group questionnaire presentation (slides template)
- Brief client survey questionnaire (document template)
- Brief client survey tabulation (spreadsheet tool)
- Regional client orientation & rapid market assessment (document template)

- Regional office walk-in client updated questionnaire (document template)
- All client feedback tools explanation for use (document instructions)

Deliverable – 5: Cost and pricing system **(the main report with recommendations for top management)**

- Cost and pricing system implementation (32 page report)
- List of priced services for all departments (spreadsheet)

Deliverable – 6: Final report

- Final report and summary conclusions (this 11 page report)
- Brief for top management (11 slide presentation)

Annex of interviews and meetings (multiple files)

- Interview responses with all NFSCS departments, Finance, BDS providers, Industry SMEs (spreadsheet)
- Pricing task group participants (document list)
- Women in Business focus group participants (document list)
- Women in Business focus group presentation & discussion guide (7 slide presentation)
- Information needs listings for each type of respondent met, including NFSCS, Finance, MSMEs and BDS providers (four individual lists of questions)